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Financial Outlook

January 24, 2019



Agenda



1. Long Range Financial Outlook
2. Pension Overview
3. CPI-based Fare Program Overview
4. Discussion



Long Range Financial Outlook

Long Range Financial Outlook Agenda



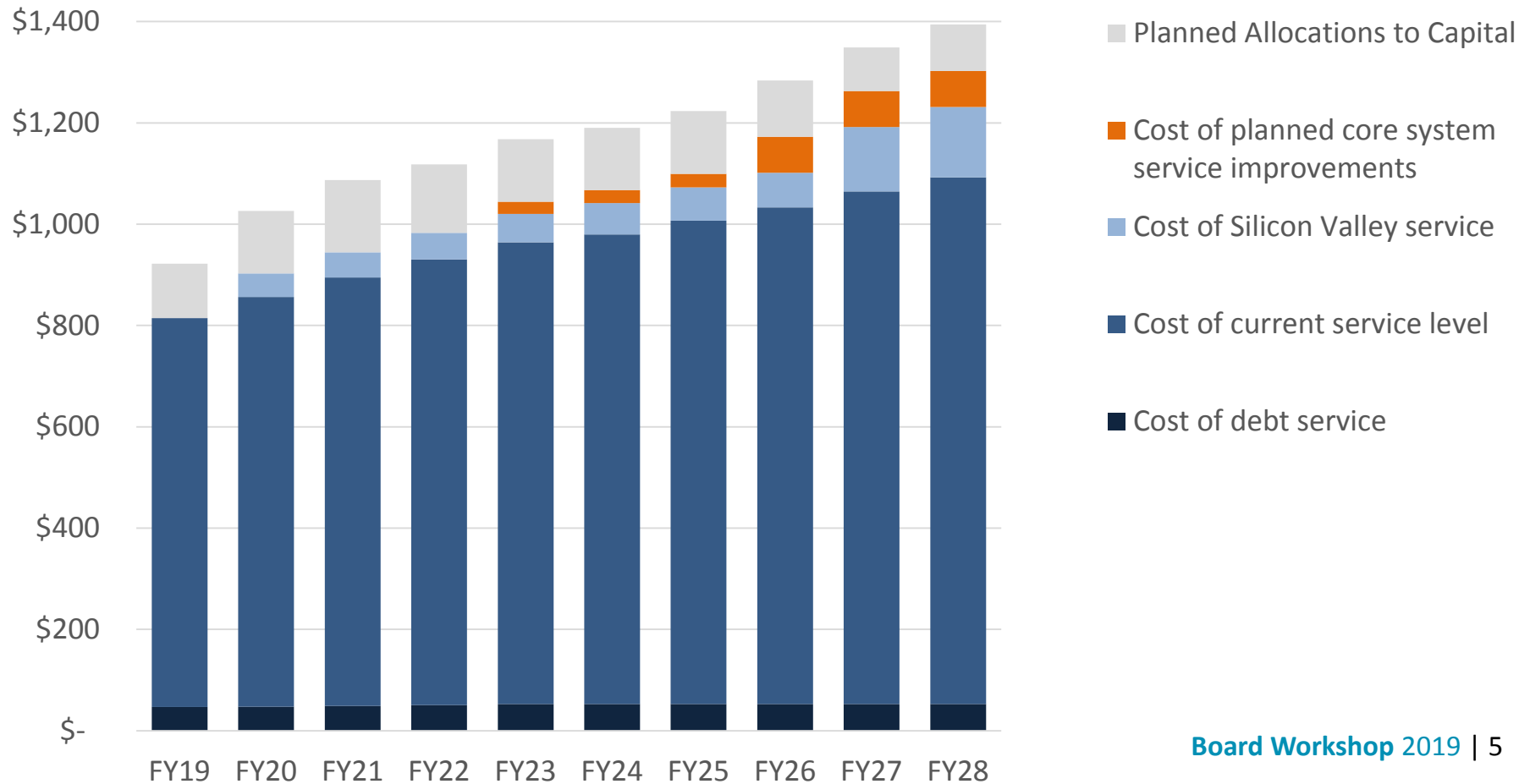
- Operating Financial Outlook
 - Uses
 - Sources
- Capital Financial Outlook
 - Summary of Capital Programs
 - Sources of Capital Funding
 - Capital Budget Forecast
- Summary



Operating Financial Outlook

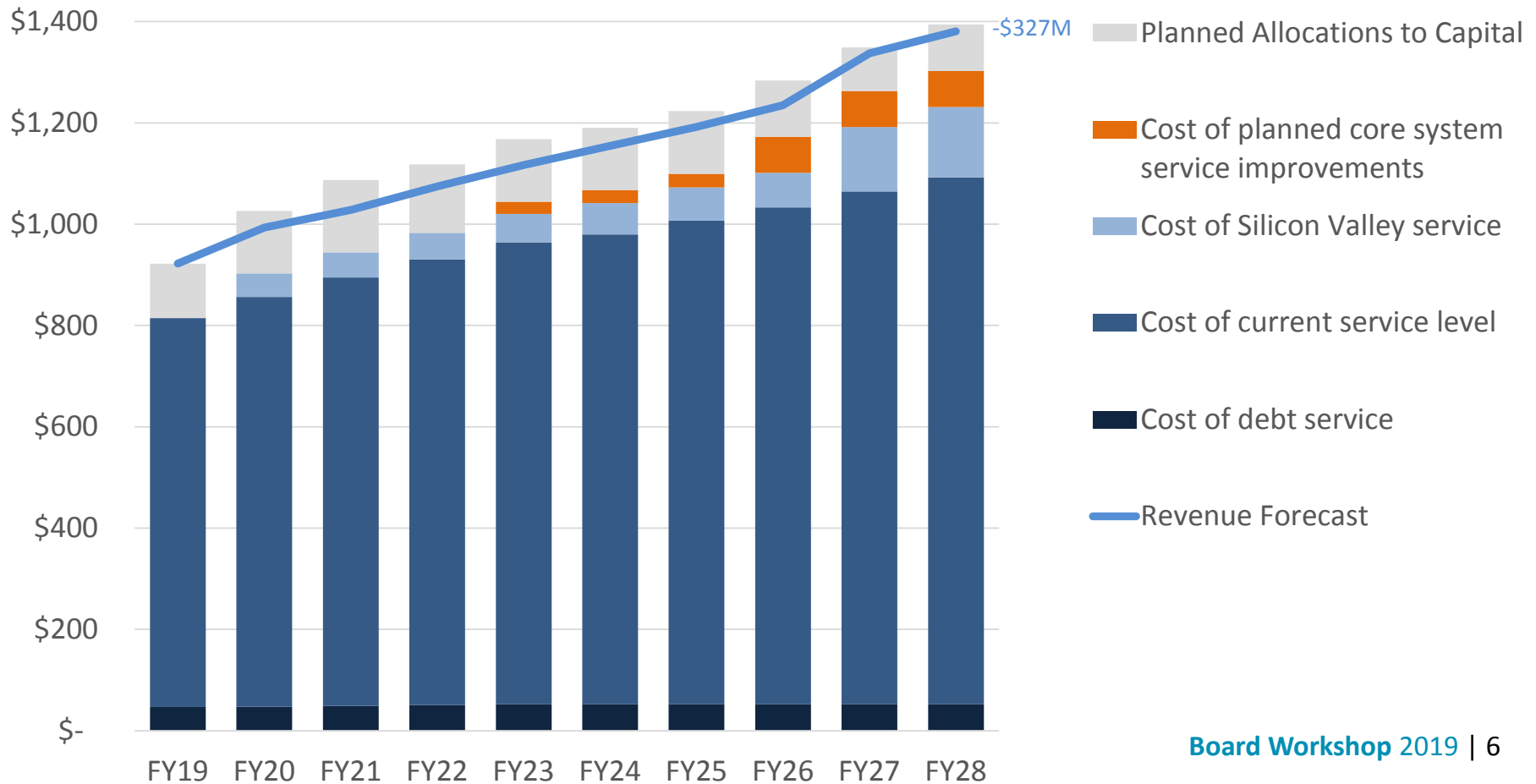
Uses of Operating Funds

Forecast Uses of Funds FY19-28 (\$ Millions)



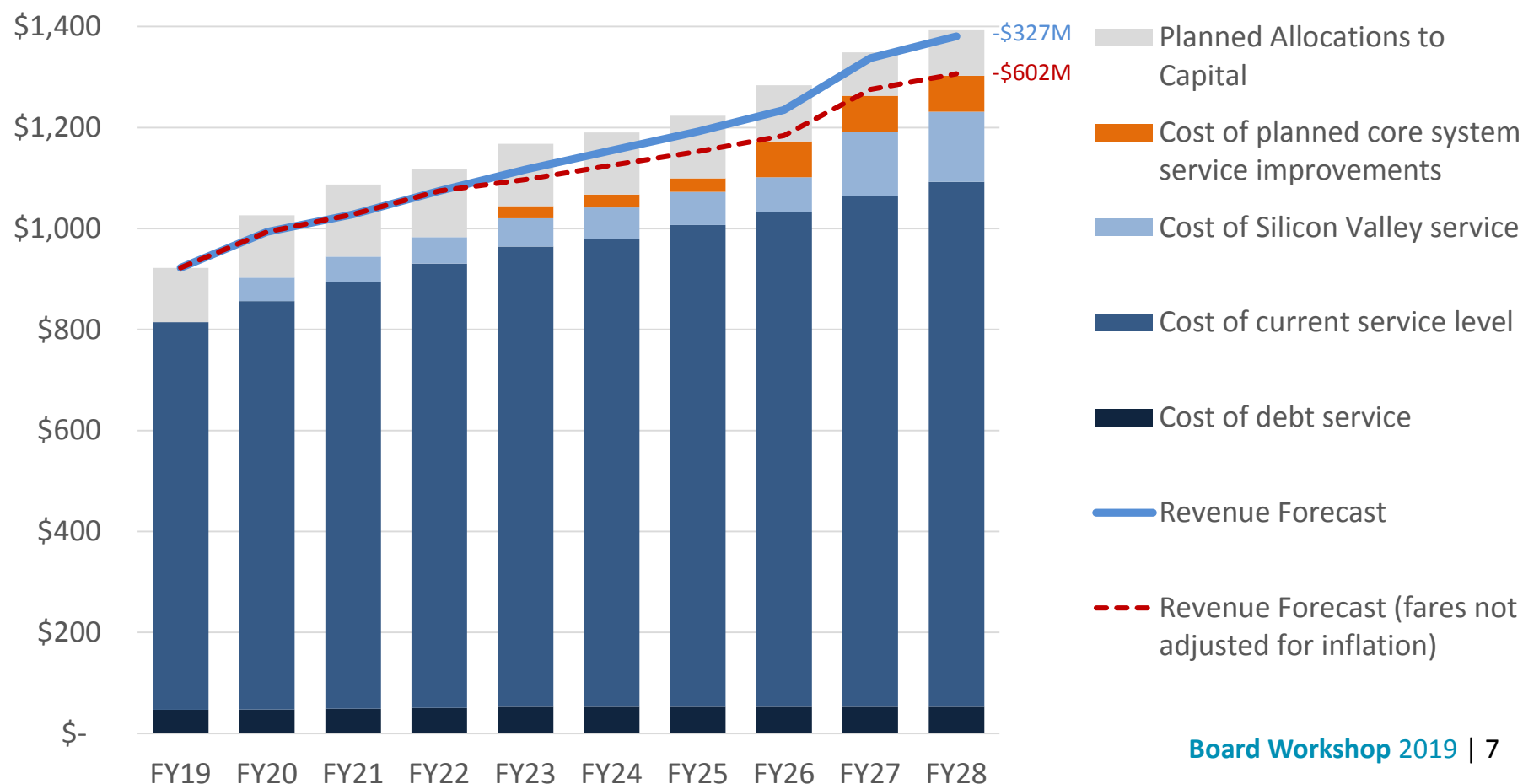
Uses of Operating Funds

Forecast Uses vs. Forecast Sources FY19-28 (\$ Millions)

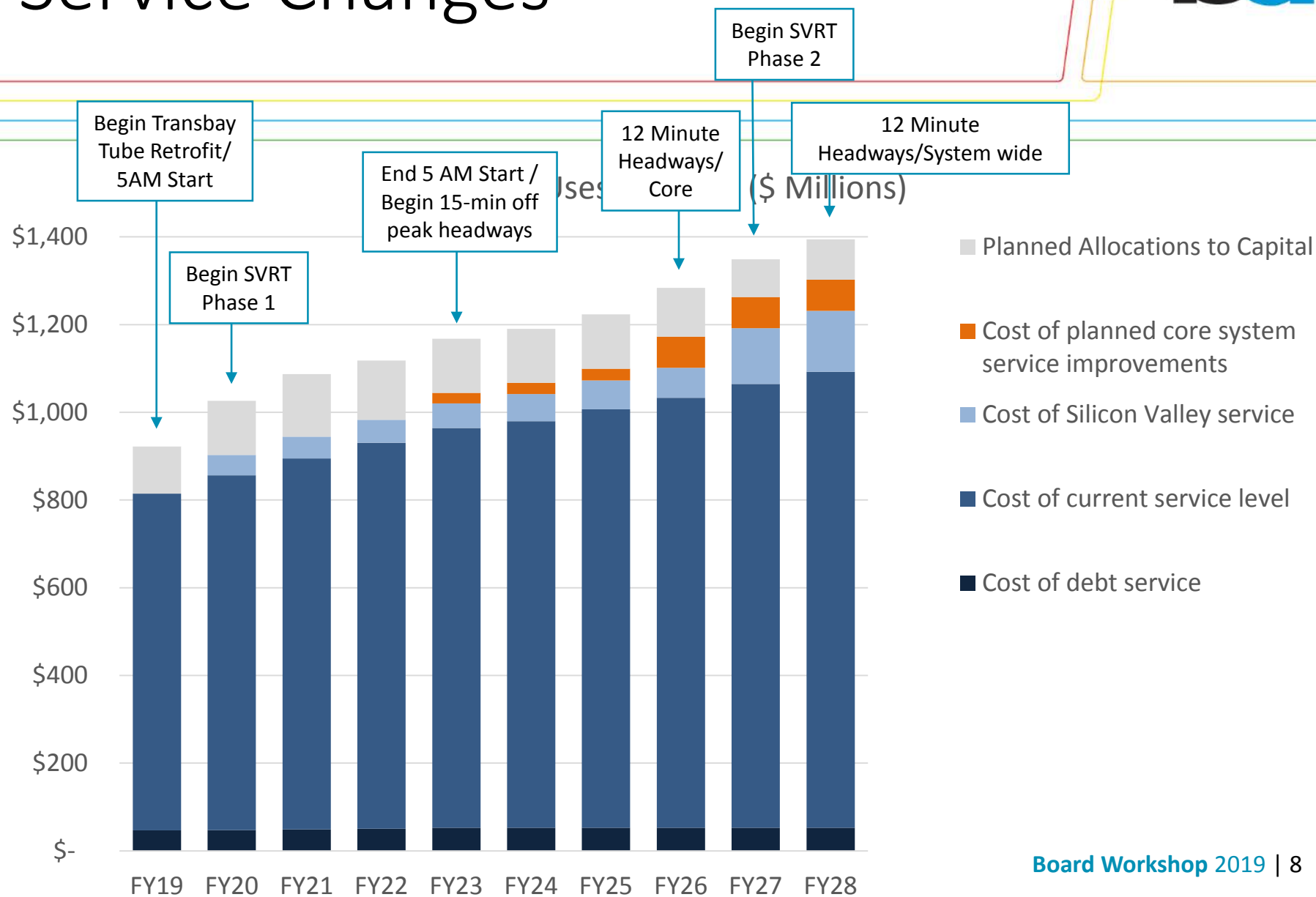


Uses of Operating Funds

Forecast Uses vs. Forecast Sources (\$ Millions)



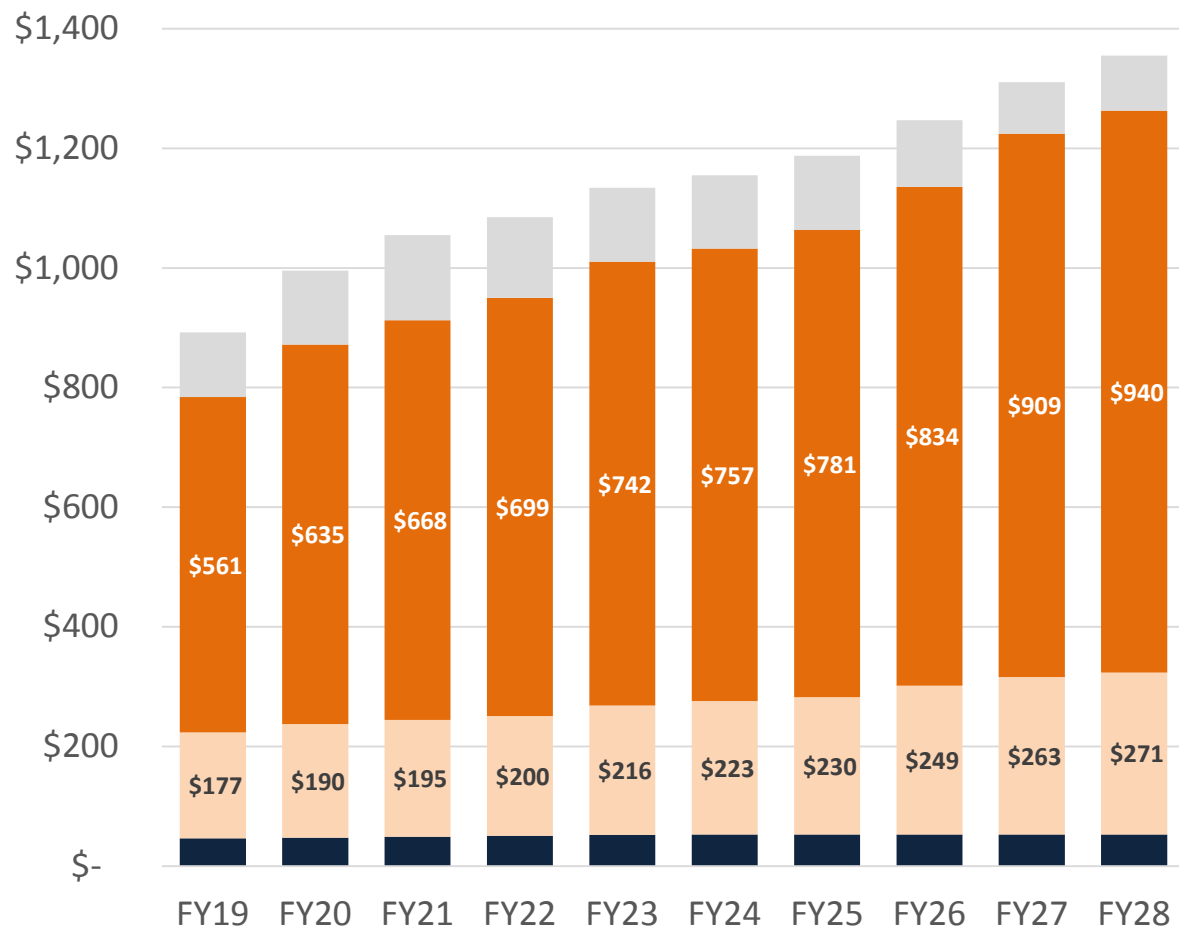
Service Changes



Uses of Operating Funds: Labor/Benefits & Non-Labor



Labor and Non-Labor Cost Forecast



Labor cost drivers include:

- Labor contracts
- Increased service = more staff
- Aging fleet as new cars phase-in
- Increased benefit costs, including pension

Beyond forecast, additional pressures on expense may include:

- Police staffing
- Safety/security
- Quality of Life investment

■ Allocations

■ Labor

■ Non-Labor

■ Cost of debt service

Uses of Operating Funds: Operating Allocations

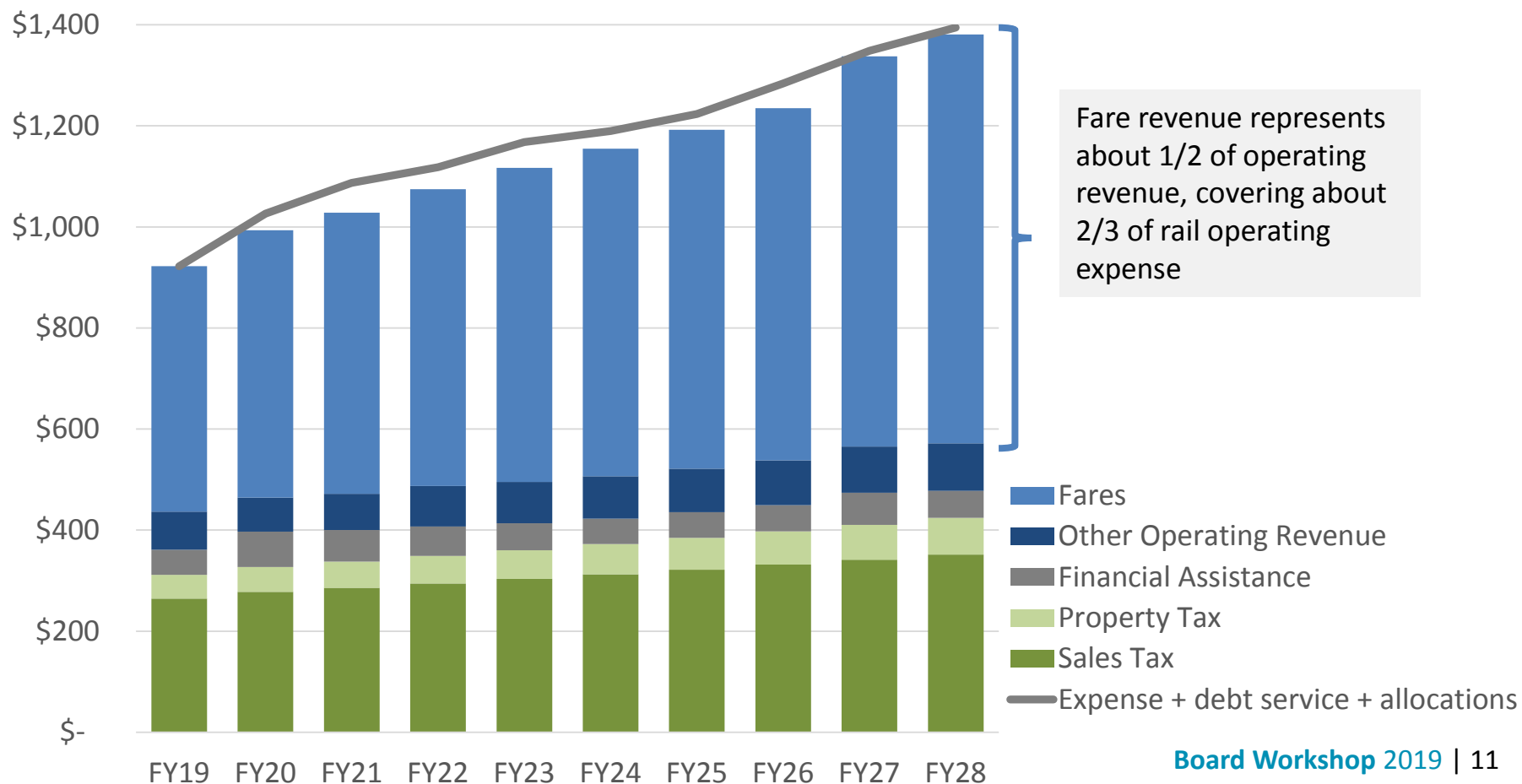


Forecast Operating Allocations

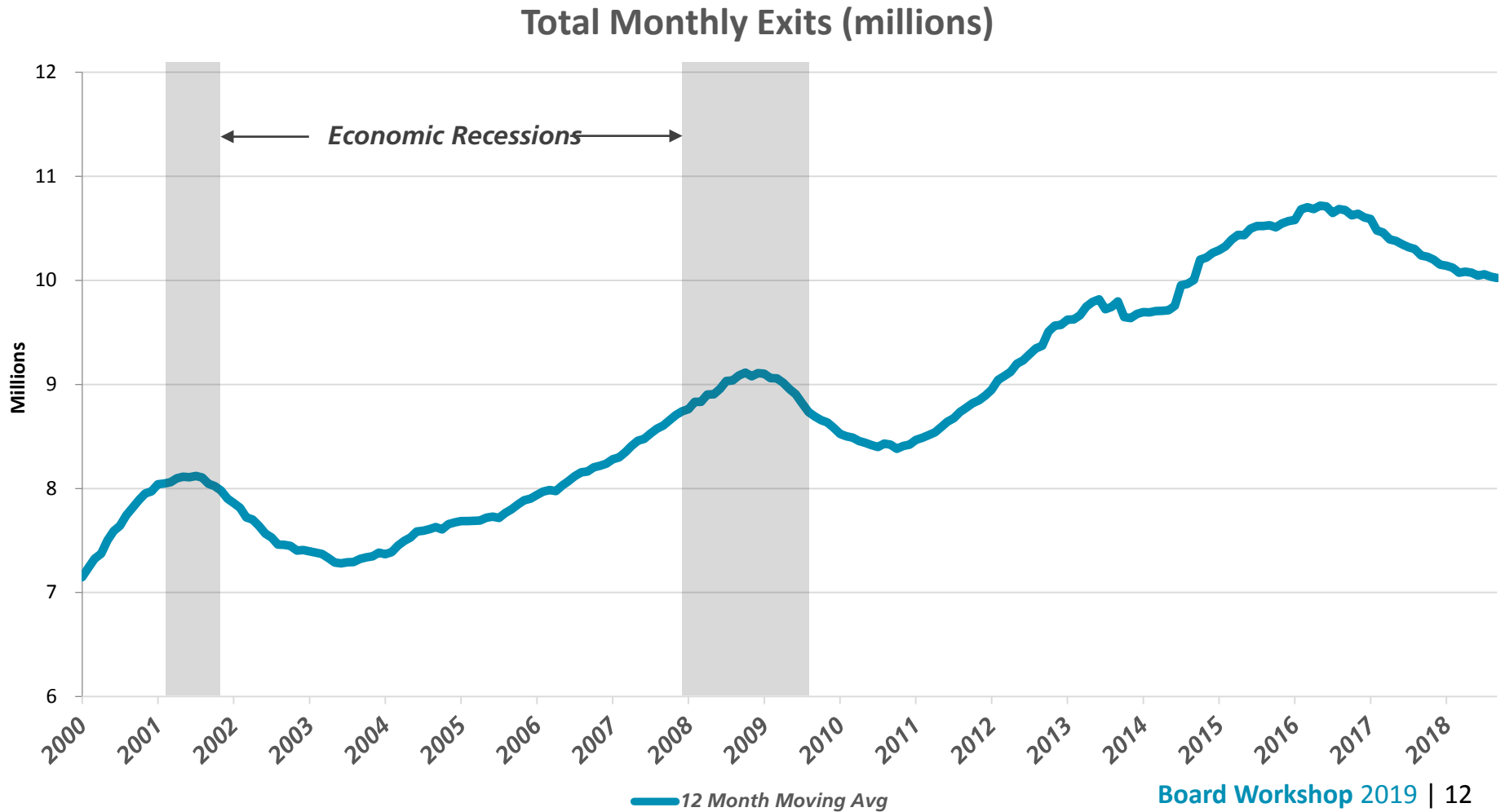


Operating Revenue Summary

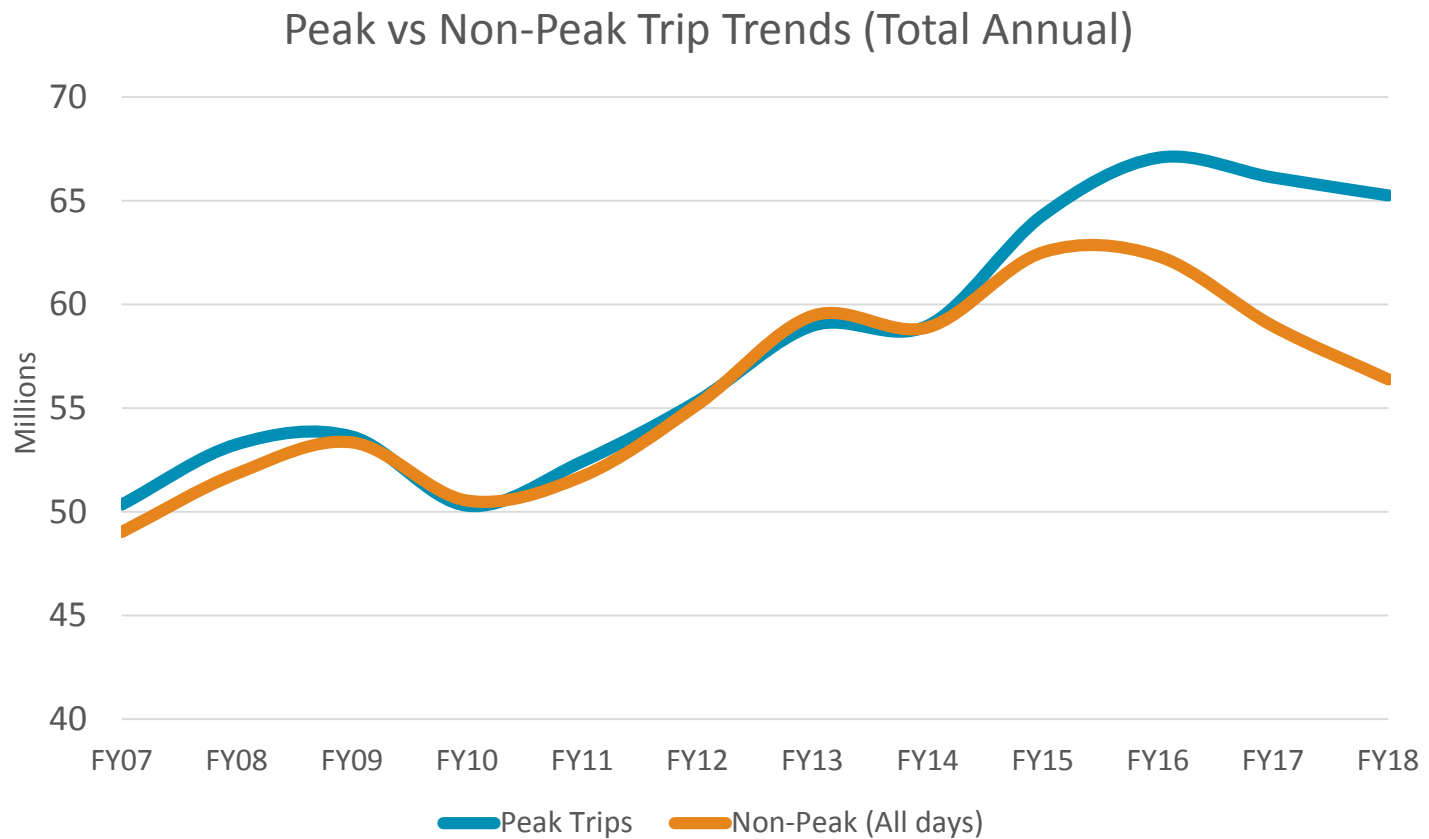
Forecast Revenue vs. Expense + Allocations (\$ Millions)



Ridership Trends



Ridership Trends

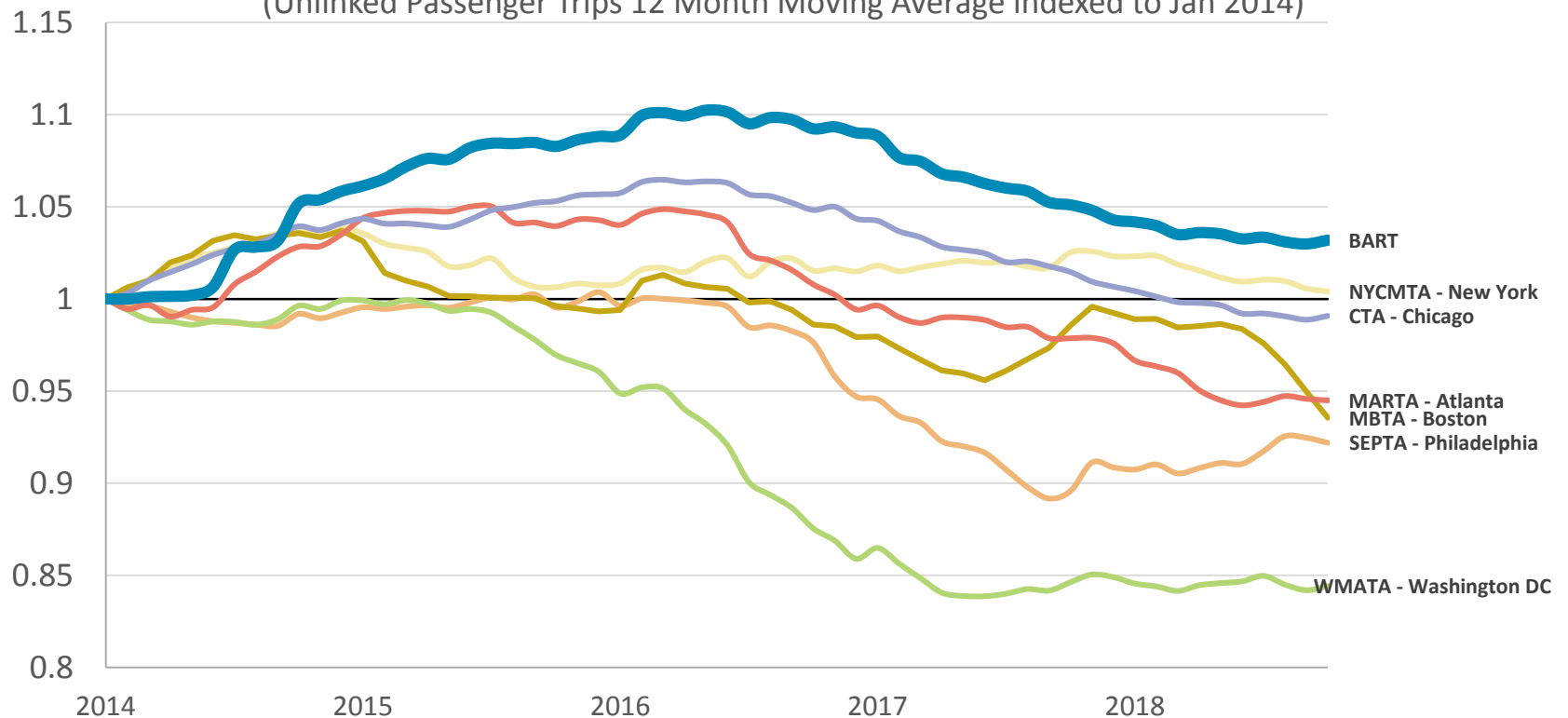


Ridership Trends



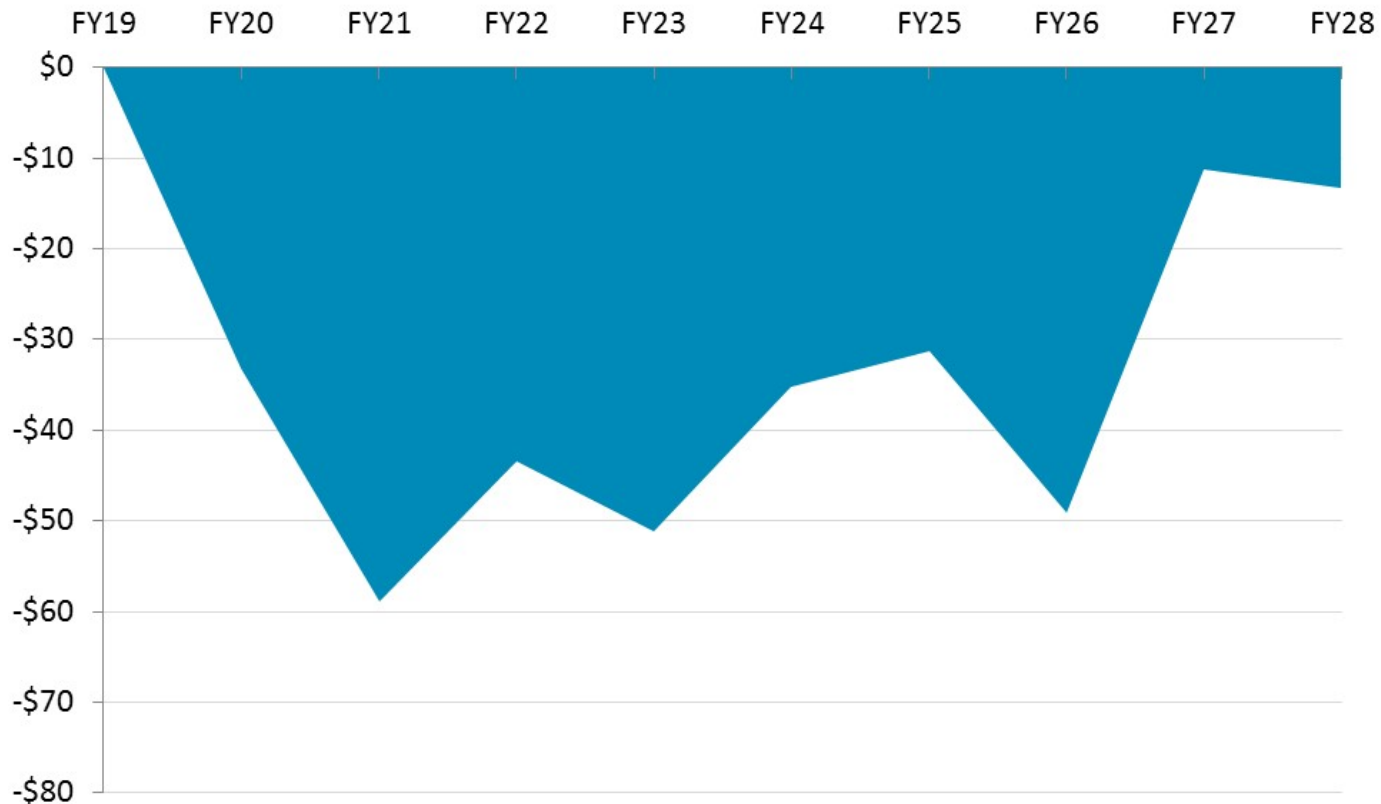
Peer Agency Ridership Trends

(Unlinked Passenger Trips 12 Month Moving Average Indexed to Jan 2014)



SRTP: Projected Operating Shortfalls

FY19 SRTP: Annual Financial Result (millions)





Capital Financial Outlook

FY19-33 Capital Improvement Program

FY19 CIP: 15-Year Capital Financial Outlook (\$B)

Total Need	\$22.4
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Total Funding	\$12.4
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<i>Secure Funding</i>	<i>\$9.3</i>
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<i>Competitive / Not Secure Funding</i>	<i>\$3.1</i>
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Unfunded Needs	\$10.0
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FY19-33 Capital Improvement Program

FY19-33 CIP: Funding Status by Program Area

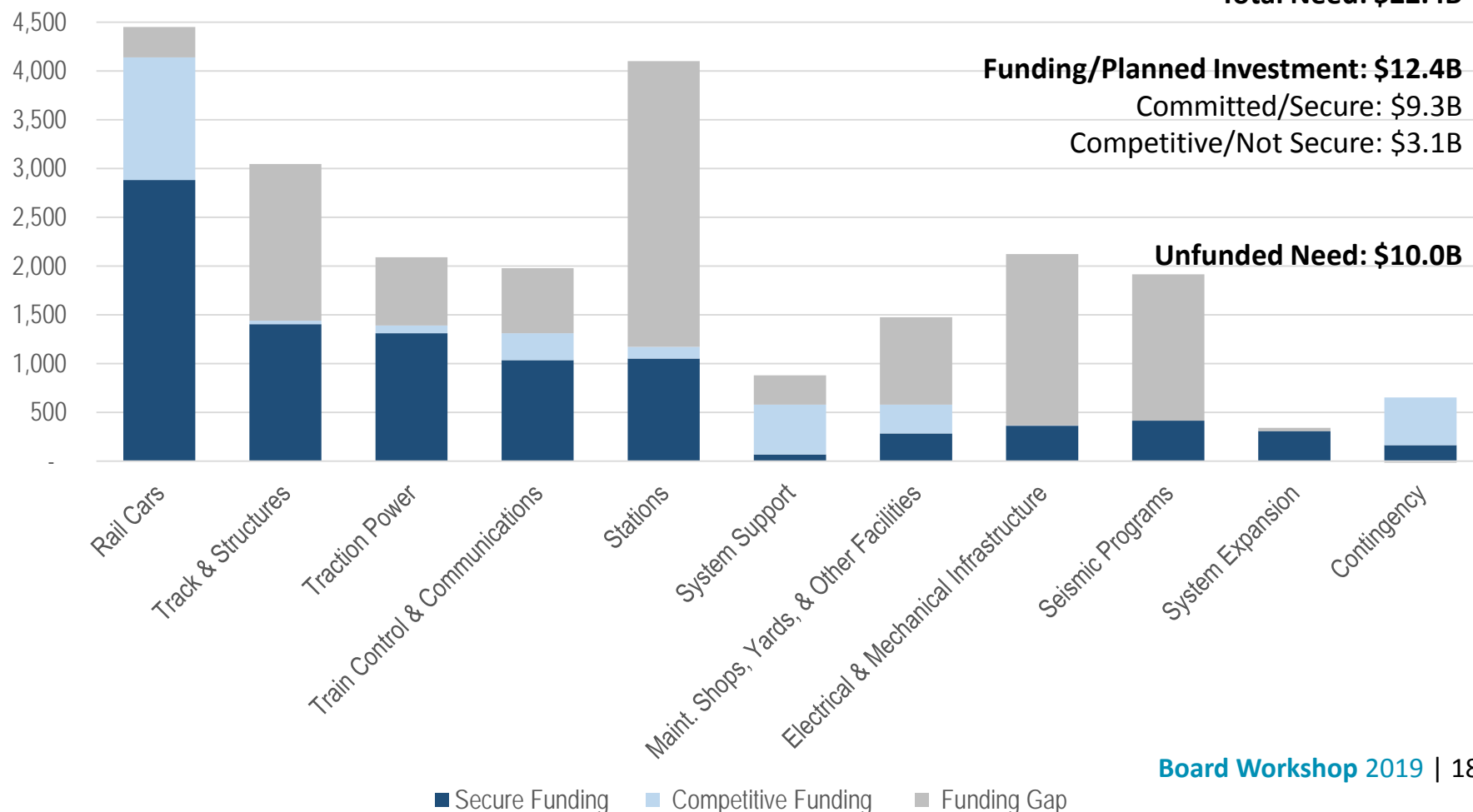
Total Need: \$22.4B

Funding/Planned Investment: \$12.4B

Committed/Secure: \$9.3B

Competitive/Not Secure: \$3.1B

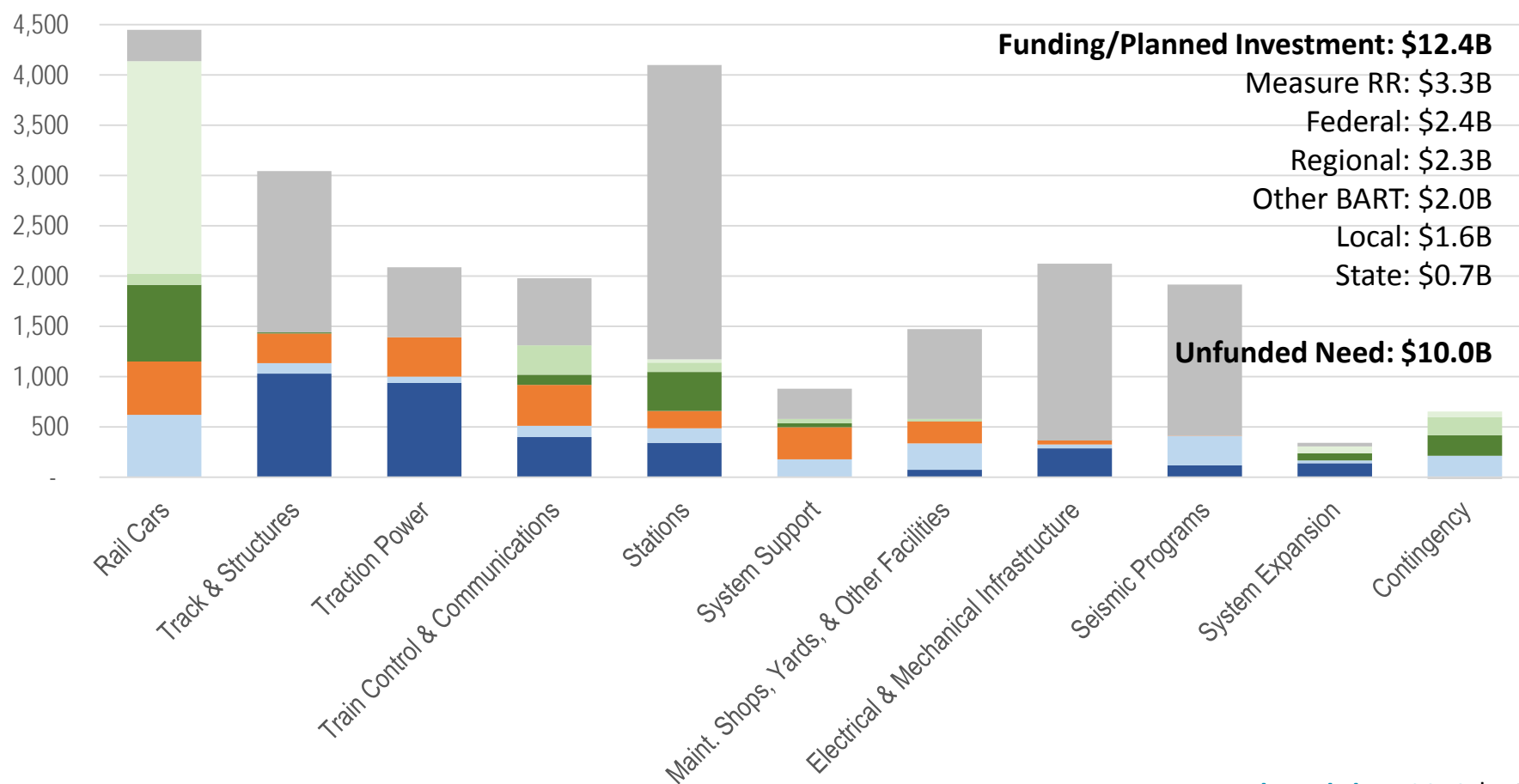
Unfunded Need: \$10.0B



FY19-33 Capital Improvement Program

FY19-33 CIP: Funding by Category

Total Need: \$22.4B



Financial Outlook Summary

- Challenging operating financial outlook:
 - Near term operating deficits
 - Fare revenue uncertainty
 - Capital allocations put pressure on operating bottom line
 - Potential Additional pressure on operating expenses
 - Staffing for planned service improvements
 - Additional police officers
 - Quality of Life programs
 - Safety & Security investments
 - Fire & Life Safety compliance
 - Pension costs

Financial Outlook Summary

- Capital program scaling up - RR Program is underway
- Large rail car payments planned
- Challenges include:
 - Timing of major project cash flows
 - Strong economy = high contract construction bids
 - Long term funding gap



Retiree Medical and Pension Benefits

Agenda



1. Other Post Employment Benefits: Retiree Medical
2. Pension Benefits
3. Additional Pension Funding

Other Post Employment Benefit (OPEB) Retiree Medical Benefit



- Medical coverage is governed by the Public Employees Medical and Hospital Care Act (PEMHCA).
- Combination of HMOs (Kaiser, Health Net, etc.) and PPOs (Administered by Anthem Blue Cross).
- Retirees and eligible dependents under age 65 are enrolled in the same plans available to active employees. Retirees and dependents who are eligible must enroll in Medicare Part B.



Retiree Medical Contribution Eligibility

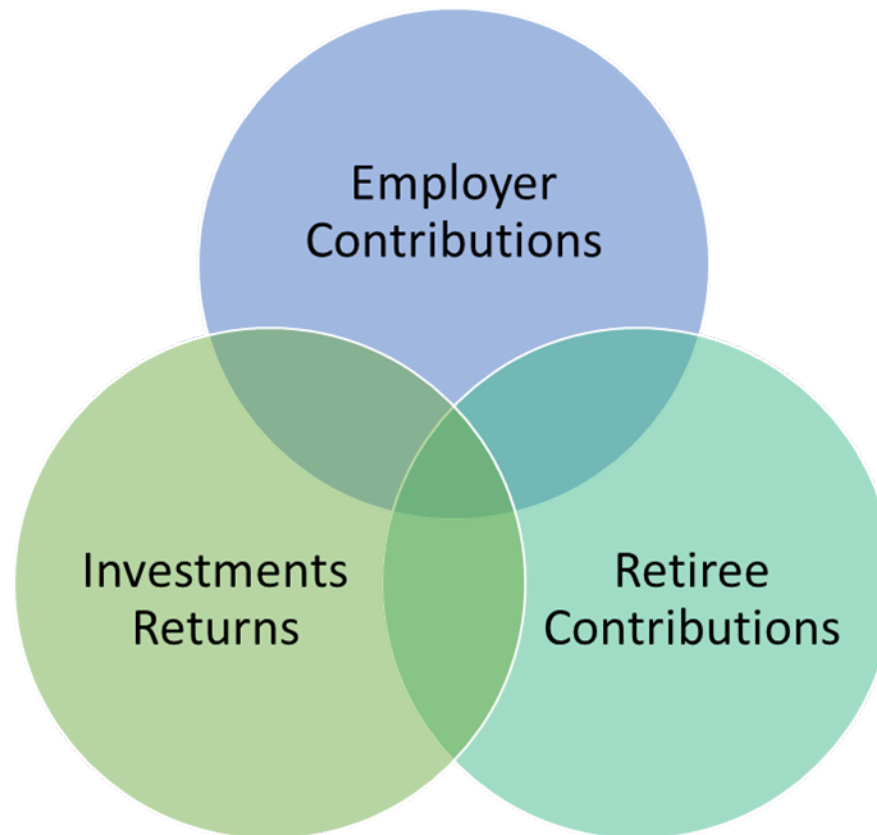


- The District and Labor worked collaboratively (through legislation) to implement a graduated scale for retiree medical coverage for employees hired after 2014.

# of BART Service Years	Contribution %
10 years	50%
11 years	60%
12 years	70%
13 years	80%
14 years	90%
15 years	100%

- Employee must retire within 120 days of separation to be eligible for retiree medical coverage.

How is OPEB: Retiree Medical Funded?



Retiree & Employer Contribution

- Retirees pay the same amount as active employees based on negotiated rates.

Retiree Group	Monthly Amount – CY19
AFSCME, ATU, SEIU, Non-Rep	\$147.14
BPOA	\$155.46
BPMA	\$150.93

- District contributions are based on an annual actuarial valuation by the District's actuary.

Investment Returns: Retiree Health Benefits Trust (“RHBT”)



- Current discount rate (rate of return) is 6.5%.
- Average rate of return over last 10 years is 7.0%.
- Controller/Treasurer determines investment policy including the asset allocation and discount rate.
- District is responsible for investment loss.

What Impacts the Unfunded Liability?



- Investment Returns
- Policy Changes
- Demographics: District uses CalPERS' data to project future behavior of BART employees/retirees
- Medical Trend Rates
- Changes in the Accounting Standards (e.g. Implied Subsidy)

What is an Implied Subsidy?

- CalPERS premiums are community rated (blended based on entire pool).
- If premiums were based on age, retirees would pay higher premiums.
- Therefore, younger employees are subsidizing older employees.
- Government Accounting Standards Board (GASB) requires agencies to recognize the difference on their books.

Example:

CalPERS – Community Rate	30 year old Age-based Rate	60 year old Age-based Rate	Difference- Implied Subsidy
\$600	\$500	\$700	\$100

OPEB: Retiree Medical Contribution Projection



- OPEB Contribution Projection
 - \$39.5 Million in FY19
 - Projected \$65.7 Million in FY29
- Unfunded Accrued Liability (UAL)
 - \$282 million at June 30, 2018
 - Preliminary projections
 - 6.5% discount rate (expected rate of return)

OPEB: Retiree Medical Funding Status & Funding Strategy



- Current funding status is 52%.
- As mentioned under Investments, the District established the RHBT to fund its OPEB liability.
- District and Labor agreed to fully fund the OPEB Retiree Medical liability by June 30, 2034.

District Retirement Plans

California Public Employees Retirement System (CalPERS)

- Defined Benefit
- Paid by Employer & Employee

Money Purchase Pension Plan (MPPP)

- Defined Contribution
- Paid Primarily by Employer
- In Lieu of Social Security

Deferred Compensation Plan (DCP)

- Defined Contribution
- Paid by Employee
- Optional Election

Defined Benefit vs. Defined Contribution



Defined Benefit (Annuity)

- Retirement benefits are based on a specific formula (Service Credit/Time x Age Factor x Final Compensation).
- Benefits are provided for life (providing plan is funded).
- Employer has a future liability.

Defined Contribution (Savings Plan)

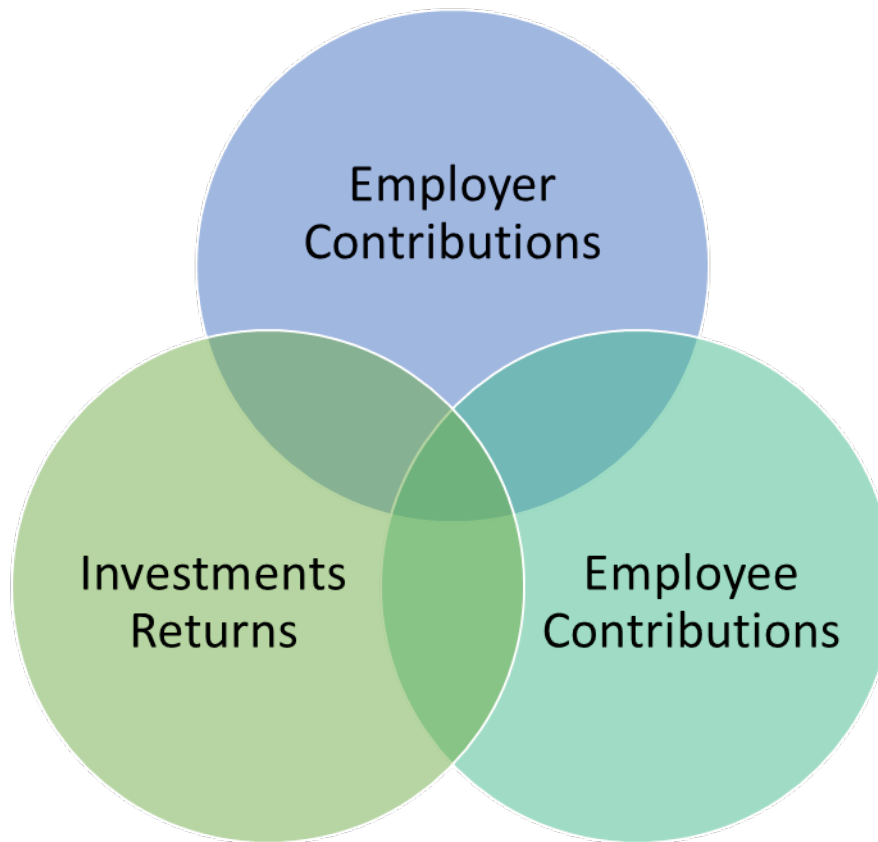
- Retirement benefits are based on the retiree's account balance (Contributions and Earnings on Investments).
- Benefits are provided until balance is exhausted.
- Employer has no future liability.

CalPERS Retirement Formulas

	Miscellaneous	Safety (Sworn Officers)
Classic (Hired before 1/1/13)	2% @ 55	3% @ 50
PEPRA (Hired on/after 1/1/13)	2% @ 62	2.7% @ 50

- No Social Security
- PEPRA: Public Employees' Pension Reform Act of 2013

How is Pension Funded?



Pension Contribution Projection

- Pension Contribution Projection
 - \$73.2 million in FY 19
 - \$86.8 million in FY 20
 - Projected \$136M in FY 29
- Unfunded Accrued Liability (UAL)
 - \$682 million at June 30, 2017
 - Most recent actuarial valuation
 - 7.25% discount rate

Pension Contribution Projection

- Following is based on most recent public information.

Plan	Date	Discount Rate	Funded %
BART Miscellaneous	6/30/2017	7.25%	76%
BART Safety	6/30/2017	7.25%	61%
CalPERS Public Agency Miscellaneous (Total)	6/30/2017	7.25%	73%
CalPERS Public Agency Safety (Total)	6/30/2017	7.25%	69%
CalSTRS (State Teachers) DB Plan	6/30/2017	7.00%	64%
CalPERS - State	6/30/2017	7.25%	67%
Alameda County Employees' Ret. Ass'n.	12/31/2017	7.25%	78%
Contra Costa County Employees' Ret. Ass'n.	12/31/2017	7.00%	91%
San Francisco Employees' Ret. System	7/1/2017	7.50%	87%
National Average (NASRA study of 121 large state & city plans – median, actuarial assets)	Nov. 2018 (FY 17)	7.38%	72%

Additional Pension Funding Discussion



- In 2018, the Board was presented with two options to make additional pension payments:
 - **Option #1** - Make additional direct payments to CalPERS.
 - **Option #2** - Establish Irrevocable Supplemental Pension (§115) Trust.
- Staff recommended Option #2.
- Trust would have similar parameters of Retiree Medical Trust.

Required Contributions During Peak Period



Pension and OPEB obligations are at their highest during FY 2028-34.

Annual Payments (\$Millions)

Required	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Pension	\$ 130	\$ 136	\$ 142	\$ 149	\$ 147	\$ 147	\$ 144
OPEB	\$ 63	\$ 65	\$ 67	\$ 69	\$ 71	\$ 73	\$ 76
Total	\$ 193	\$ 201	\$ 209	\$ 218	\$ 218	\$ 220	\$ 219

The following are preliminary projections based on current assumptions. Any changes, such as lower investment returns, can significantly increase these required contributions.

Required Contributions & Funding Concerns



- Combined required pension and OPEB retiree medical payments for FY19 is \$135M.
 - This will increase by 71% in FY28 .
 - This will increase by 95% in FY34.
- If CalPERS or RHBT investments do not meet the target rate of return, contribution rates will be higher than current projection.

Staff Recommendations

Pension Funding Recommendation:

Establish Irrevocable Supplemental Pension (§115) Trust and a Pension Funding Policy.

- Trust provides flexibility to respond to economic downturns and/or financial challenges.
- Board Policy will provide structure to ensure funds are used appropriately.

Summary & Discussion

- Retiree medical unfunded liability was negotiated to be 100% funded by June 30, 2034.
- OPEB Investments through Retiree Health Benefits Trust.
- Pension contributions are currently budgeted with additional funding set aside for increased funding.
- Staff has concerns about increases to required contributions for retiree medical and pension if target rate of returns are not met.
- Staff recommends establishing an Irrevocable Supplemental Pension 115 Trust and a Pension Funding Policy.

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Fare Programs

Inflation-based Fare Increase Program and
Low-Income Fare Discount Pilot Program

Inflation-based Program Overview

- **Fares** pay for approximately **2/3s of BART's operating costs**
- The Board approved a **Productivity-Adjusted Inflation Based Fare Increase Program** for **financial stability and predictability** at BART
 - Starting in 2006, fares adjusted by less-than-inflation every two years
 - Calculation: Average of national and Bay Area inflation over 2 years, less one-half percent for BART productivity improvements
- Peer and local agencies also have policies/programs for implementing regular fare increases

Inflation-based Program Policy Support



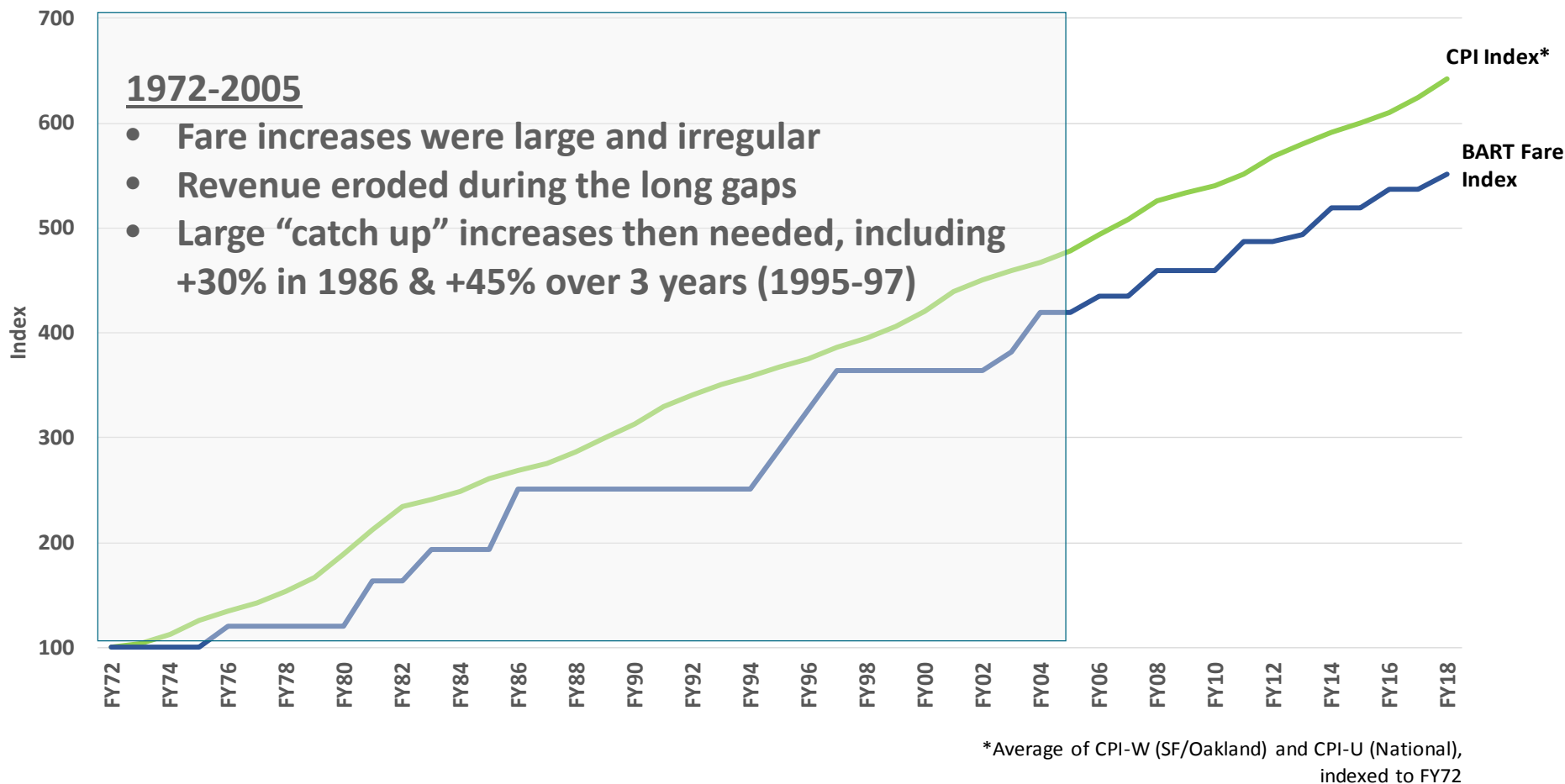
FINANCIAL STABILITY POLICY

- BART's ability **to deliver safe, reliable service** rests on a **strong and stable financial foundation**
 - Goal: Preserve and maximize BART's fare revenue base, through a **pattern of predictable fare adjustments**, while retaining ridership
 - Strategy: **Aligning fares with CPI-based cost growth**
 - Board adopted biennial productivity-adjusted inflation-based fare increase program in 2003, with first increase implemented in 2006

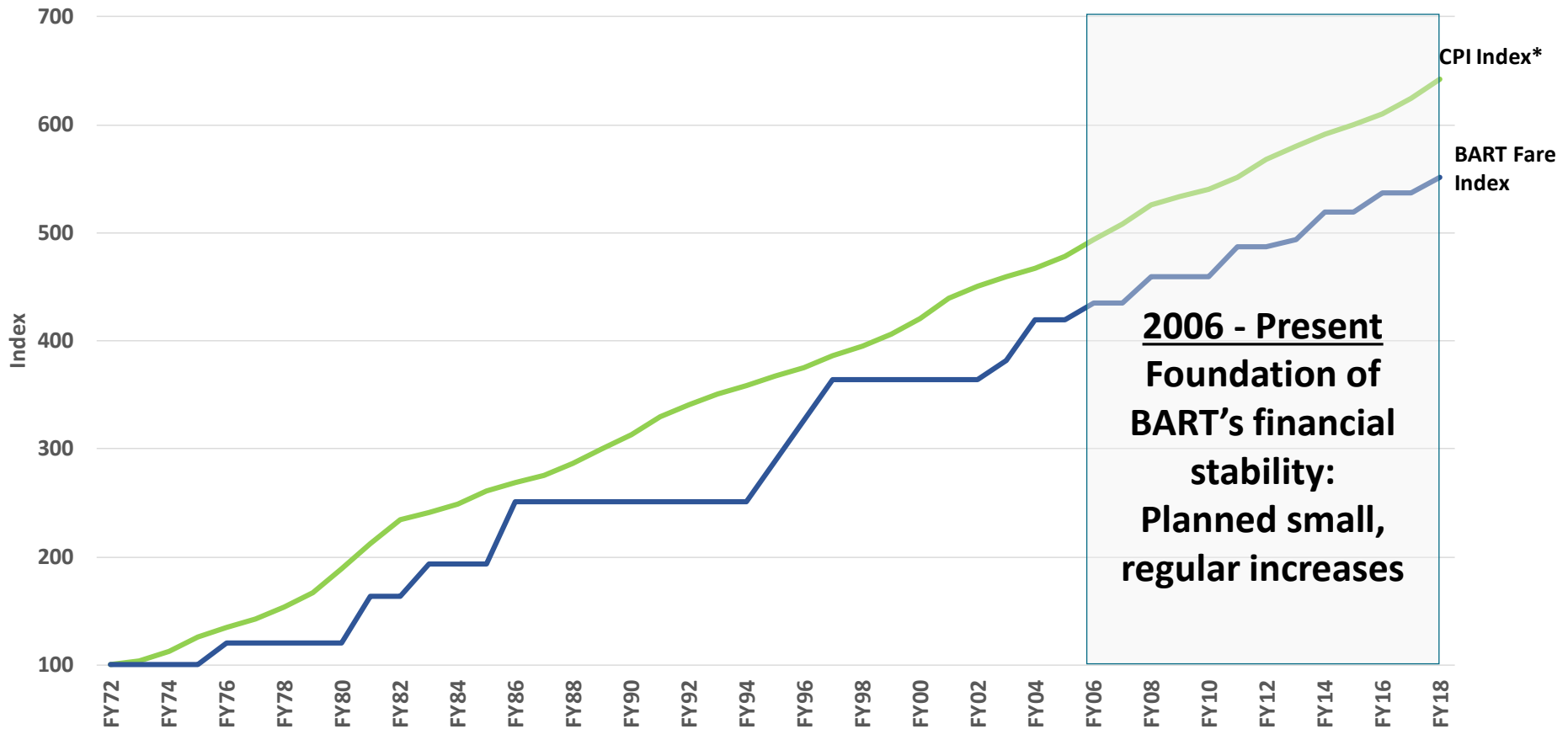
FARE POLICY

- Goal: Maintain and improve the **District's financial health**, in accordance with **BART's Strategic Plan and Financial Stability Policy**

Comparing BART Fares and Inflation



Comparing BART Fares and Inflation



*Average of CPI-W (SF/Oakland) and CPI-U (National), indexed to FY72

Inflation-based Program Benefits

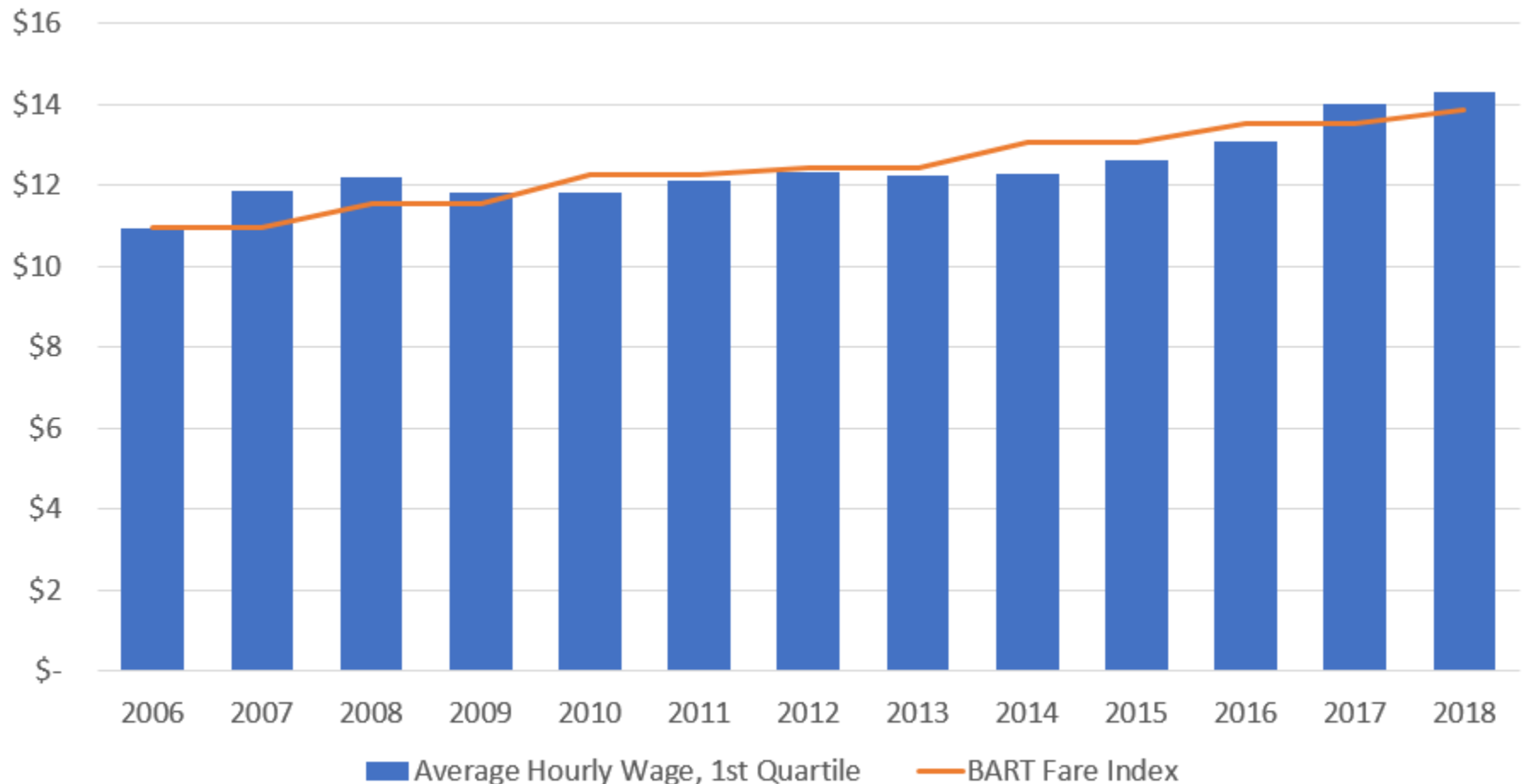
Program Series	Use of Funds
Series 1: 2006-2012	Over this period, \$290M in fare revenue went to operating needs, enabling BART to weather the Great Recession without reducing service levels
Series 2: 2014-2020	\$330M in revenue has been dedicated to Big 3 capital investments: new rail cars, train control system, and Hayward Maintenance Complex
Series 3: 2022-2028	Series 3 estimated at \$370M with a portion directed to Core Capacity program (estimated at \$200M) with remainder to fund expanded rail operations, per BART's FY19 SRTP/CIP

Reduced Fares for Low-Income Riders Pilot Program



- **To reduce transportation costs for Bay Area low-income riders**, BART is participating in the Metropolitan Transportation Commission's **Regional Means-based Transit Fare Discount Pilot Program**
- BART, Caltrain and Golden Gate Transit propose to offer a **20% discount per trip**
- Riders earning **200% or less** of the **federal poverty level** would be eligible and use a **specially encoded Clipper card**
- **Enrollment methods** under development include web portal for direct rider access, paper applications, and pre-approval letters from social service and public health agencies
- **Eligibility verification** by 3rd party vendor, like RTC card
- Net **annual revenue loss** estimated at approx. **\$6M**

Growth in Low-Income Wages Compared to BART Fares



Source: State of California Employment Development Department, 2018;
Oakland-Hayward-Berkeley MD

Additional BART Fare Discounts



Rider Group	Discount Amount
Youth age 5-18 <i>Youth riders have taken approx. 1.3 million more trips in 2018 compared to 2017, a 265% increase</i>	50%
Seniors, 65+	62.5%
People with Disabilities	62.5%

Next Steps

- Inflation-based Fare Program
 - In anticipation of **Board consideration of inflation-based fare program in spring 2019**, staff to begin proactive outreach in **February**
 - Spring 2019 consideration necessary to **meet Core Capacity federal grant funding application deadline**
- Low-Income Fare Discount Pilot Program
 - Staff is currently analyzing public input to bring the program to the **Board for consideration in spring 2019**
 - Pending all necessary approvals, the pilot could **start as soon as fall 2019**

Discussion

